APPENDIX 17

"A sober, clear-eyed attack on the excesses of drug company power . . . a lucid, persuasive, and highly important book."
—*The Boston Globe*

During her two decades at *The New England Journal of Medicine*, Dr. Marcia Angell had a front-row seat on the growing corruption of the pharmaceutical industry. She watched drug companies stray from their original mission of discovering and manufacturing useful drugs and instead become vast marketing machines with unprecedented control over their own fortunes. She saw them gain nearly limitless influence over medical research, education, and how doctors do their jobs. She sympathized as the American public, particularly the elderly, struggled and increasingly failed to keep up with spiraling prescription drug prices. Now, in this bold, hard-hitting book, Angell exposes the shocking truth of what the pharmaceutical industry has become—and argues for essential, long-overdue change. Written with clarity and force and substantiated with in-depth research, *The Truth About the Drug Companies* is a searing indictment of an industry that has spun out of control.

"In what should serve as the *Fast Food Nation* of the drug industry, Angell presents . . . a powerful case . . . for reform."
—*Publishers Weekly* (starred review)

"Always authoritative . . . [Angell] delivers the message—that drug-company money and power is corrupting American medicine—in a convincing, no-nonsense manner."
—*The Washington Post Book World*

"Eye-opening . . . If you've ever suffered prescription drug sticker shock, [this] is the book for you."
—*Newsday*

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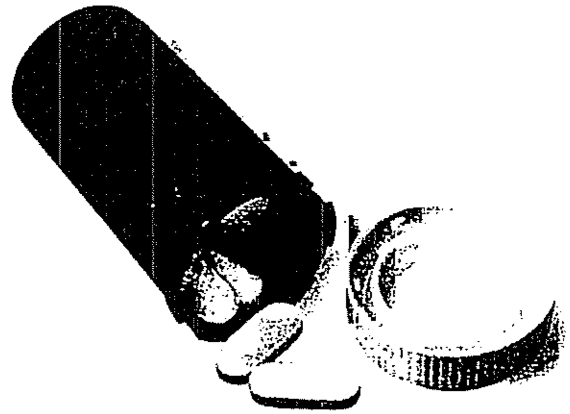
The Truth About the Drug Companies MARCIA ANGELL, M.D.

RANDOM HOUSE

New York Times Business bestseller

"A scorching indictment of drug companies and their research and business practices . . . tough, persuasive and troubling."
—JANET MASLIN, *The New York Times*

The Truth About the Drug Companies



HOW THEY DECEIVE US AND WHAT TO DO ABOUT IT

MARCIA ANGELL, M.D.

Former editor in chief of *The New England Journal of Medicine*
Winner of the Polk Award

Revised and updated
Includes tips on what you can do to protect your interests

creased the patent life of brand-name drugs. Drug companies now employ small armies of lawyers to milk these laws for all they're worth—and they're worth a lot. The result is that the effective patent life of brand-name drugs increased from about eight years in 1980 to about fourteen years in 2000.[7] For a blockbuster—usually defined as a drug with sales of over a billion dollars a year (like Lipitor or Celebrex or Zoloft)—those six years of additional exclusivity are golden. They can add billions of dollars to sales—enough to buy a lot of lawyers and have plenty of change left over. No wonder big pharma will do almost anything to protect exclusive marketing rights, despite the fact that doing so flies in the face of all its rhetoric about the free market.

Riding High

As their profits skyrocketed during the 1980s and 1990s, so did the political clout of drug companies. By 1990, the industry had assumed its present contours as a business with unprecedented control over its own fortunes. For example, if it didn't like something about the FDA, the federal agency that is supposed to regulate the industry, it could change it through direct pressure or through its friends in Congress. The top ten drug companies (which included European companies) had profits of nearly 25 percent of sales in 1990, and except for a dip at the time of President Bill Clinton's health care reform proposal, profits as a percentage of sales remained about the same for the

next decade. (Of course, in absolute terms, as sales mounted, so did profits.) In 2001, the ten *American* drug companies in the Fortune 500 list (not quite the same as the top ten worldwide, but their profit margins are much the same) ranked far above all other American industries in average net return, whether as a percentage of sales (18.5 percent), of assets (16.3 percent), or of shareholders' equity (33.2 percent). These are astonishing margins. For comparison, the median net return for all other industries in the Fortune 500 was only 3.3 percent of sales. Commercial banking, itself no slouch as an aggressive industry with many friends in high places, was a distant second, at 13.5 percent of sales.[8]

In 2002, as the economic downturn continued, big pharma showed only a slight drop in profits—from 18.5 to 17.0 percent of sales. The most startling fact about 2002 is that the combined profits for the ten drug companies in the Fortune 500 ($35.9 billion) were more than the profits for all the other 490 businesses put together ($33.7 billion).[9] In 2003, profits of the Fortune 500 drug companies dropped to 14.3 percent of sales, still well above the median for all industries of 4.6 percent for the year. When I say this is a profitable industry, I mean *really* profitable. It is difficult to conceive of how awash in money big pharma is.

Drug industry expenditures for research and development, while large, were consistently far less than profits. For the top ten companies, they amounted to only 11 percent of sales in 1990, rising slightly to 14 percent in 2000. The biggest single

item in the budget is neither R & D nor even profits but something usually called "marketing and administration"—a name that varies slightly from company to company. In 1990, a staggering 36 percent of sales revenues went into this category, and that proportion remained about the same for over a decade.[10] Note that this is two and a half times the expenditures for R & D.

These figures are drawn from the industry's own annual reports to the Securities and Exchange Commission (SEC) and to stockholders, but what actually goes into these categories is not at all clear, because drug companies hold that information very close to their chests. It is likely, for instance, that R & D includes many activities most people would consider marketing, but no one can know for sure. For its part, "marketing and administration" is a gigantic black box that probably includes what the industry calls "education," as well as advertising and promotion, legal costs, and executive salaries—which are whopping. According to a report by the nonprofit group Families USA, the former chairman and CEO of Bristol-Myers Squibb, Charles A. Heimbold, Jr., made $74,890,918 in 2001, not counting his $76,095,611 worth of unexercised stock options. The chairman of Wyeth made $40,521,011, exclusive of his $40,629,459 in stock options. And so on. This is an industry that amply rewards its own.[11]

In recent years, the top ten companies have included five European giants—GlaxoSmithKline, AstraZeneca, Novartis, Roche, and Aventis. Their profit margins are similar to those of their

American counterparts, and so are their expenditures for R & D and marketing and administration. Furthermore, they are members of the industry's trade association, the misleadingly named Pharmaceutical Research and Manufacturers of America (PhRMA). Recently I heard Daniel Vasella, the chairman and CEO of Novartis, speak at a conference. He was clearly pleased with the American commercial and research climate. "Free pricing and fast approval secure rapid access to innovation without rationing," he said, sounding like the most red-blooded of Americans, despite his charming Swiss accent.[12] His company is now moving its research operations to a site near the Massachusetts Institute of Technology (MIT), a hotbed of basic research surrounded by biotechnology companies. I suspect the move has nothing to do with "free pricing and fast approval" at all, and everything to do with the opportunity to profit from U.S. taxpayer-funded research under the terms of Bayh-Dole, and from the proximity of U.S. medical scientists who do the research.

Trouble

If 1980 was a watershed year for the pharmaceutical industry, 2000 may very well turn out to have been another one—the year things began to go wrong. As the booming economy of the late 1990s turned sour, many successful businesses found themselves in trouble. And as tax revenues dropped, state governments also found themselves in trouble. In one respect, the pharmaceutical industry is well protected against the downturn,